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Message Text

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R 180857Z AUG 76
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 1673
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL HONG KONG
USMISSION OECD PARIS

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PASS FEDERAL RESERVE, LABOR AND EXIMBANK

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - AUGUST 5-18

1. SUMMARY: WHOLESALE PRICES JUMPED 1 PERCENT IN JULY TO REGISTER LARGET INCREASE IN NEARLY TWO YEARS. JULY TRADE SURPLUS NARROWED SHARPLY ON SEASONALLY ADJUSTED BASIS AS EXPORTS DECLINED AND IMPORTS REGISTERED HEALTHY RISE FOR SECOND STRAIGHT MONTH. ON VOLUME BASIS, HOWEVER, BOTH EXPORTS AND IMPORTS DECLINED IN JULY. NEW MACHINERY ORDERS ROSE IN JUNE TO RECOVER SOME OF THE GROUND LOST IN DECLINES OF TWO PRECEDING MONTHS. UNIT LABOR COSTS FELL SLIGHTLY IN JUNE AND HAVE DROPPED BY OVER 8 PERCENT SINCE JAN 1976. GROWTHOF NARROWLY DEFINED MONEY SUPPLY, AS WELL AS LOANS AND DISCOUNTS, PICKED UP IN JUNE WHILE
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ADVANCE IN BROADLY DEFINED MONEY SUPPLY (M2) REMAINED

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STRONG. INITIAL REPORTS ON NEXT YEAR'S BUDGET INDICATE GOJ WILL STRIVE FOR "RESTRAINED" SPENDING, WITH ANNUAL PERCENTAGE INCREASE LESS THAN HALF THAT REGISTERED IN EARLY 1970'S. JAPAN EXIMBANK LOANS, HOWEVER, WOULD RISE SHARPLY IF MITI PROPOSAL IS ADOPTED.

2. WHOLESALE PRICES ROSE 1.0 PERCENT IN JULY. THIRTEENTH CONSECUTIVE INCREASE IN WPI (JEI 471) WAS LARGEST MONTHHY RISE IN NEARLY TWO YEARS. OFFICIALS AT BANK OF JAPAN ATTRIBUTED SHARP JULY INCREASE TO RICE MARKUPS FOR BASIC INDUSTRIAL MATERIALS SUCH AS STEEL AND PETROLEUM PRODUCTS AND IN ELECTRICITY CHARGES. ACCORDING TO BOJ, WPI INCREASE EXPECTED IN AUGUST MAY BE AS HIGH AS 0.7 PECENT. NEVER-THELESS, BANK OFFICIALS SAID THEY DID NOT BELIEVE IT NECESSARY FOR THE GOVT TO SHIFT TO A TIGHT MONEY POLICY AT THIS TIME.

	INDEX (N.S.A., 1970-100)	PCT CHANGE FROM PRIOR MONTH
MAY	164.1	0.4
JUNE	164.9	0.5
JULY	166.5	1.0

3. JUNE NEW MACHINERY ORDERS ROSE 10 PERCENT FROM PRIOR MONTH ON SEASONALLY ADJUSTED BASIS. DESPITE JUNE INCREASE, WHICH RESTORED NEW PRIVATE MACHINERY ORDERS, EXCLUDING SHIPS (JEI 337), TO APRIL LEVEL, THE AVERAGE LEVEL OF ORDERS DURING FIRST SIX MONTHS OF 1976 WAS VIRTUALLY THE SAME AS THE AVERAGE FOR FIRST SIX MONTHS OF LAST YEAR. ALTHOUGH MACHINERY ORDERS REGISTERD SHARP INCREASES IN FEB AND MARCH, THEY SLUMPED BADLY DURING APR-JUNE PERIOD. THERE HAVE BEEN SCATTERED REPORTS THAT INDUSTRIES OTHER THAN STEEL AND ELECTRIC POWER MAY REVISE THEIR PRESENT INVESTMENT PLANS UPWARD, BUT THIS DOES NOT APPEAR TO BE REFLECTED IN STATISTICS RELEASED THUS FAR.

NEW MACHINERY ORDERS, EXCLUDING SHIPS, S.A.

	BIL YEN	PERCENT CHANGE FROM PRIOR PERIOD
QUARTERLY: (MONTHLY AVG)		
1975III	200.4	MIN 27.0
IV	190.9	17.5
1976 I	272.5	34.0
II	239.0	MIN 12.3

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MONTHLY:		
APRIL	247.4	MIN 23.5
MAY	223.6	MIN 9.6
JUNE	246.0	10.0

4. JAPAN'S TRADE SURPLUS DROPPED BY NEARLY $400 MIL IN JULY. JAPAN'S EXPORTS (JEI 44, F.O.B., S.A.) DECLINED BY 3.4 PERCENT TO $5,300 MIL FROM PRIOR MONTH AND RECORDED

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SECOND STRAIGHT MONTH OF DECLINE. SEASONALLY ADJUSTED IMPORTS (JEI 48, F.O.B.), ON THE OTHER HAND, ROSE BY 4.5 PERCENT TO REACH $4,570 MIL IN JULY, TO REGISTER SECOND STRAIGHT MONTH OF HEALTHY GROWTH. AS A RESULT, THE JULY TRADE SURPLUS FELL TO $730 MIL. MOF OFFICIAL STRESSED JULY REDUCTION IN TRADE SURPLUS (S.A.) MIGHT INDICATE LIKELY FURTHER REDUCTION OF JAPAN'S TRADE SURPLUS IN THE MONTHS AHEAD. (BEFORE SEASONAL ADJUSTMENT, JAPAN'S TRADE SURPLUS INCREASED FURTHER TO $1,000 MIL IN JULY.) JULY EXPORTS (S.A.) DROPPED FROM MONTHLY AVERAGE RECORDED IN THE FIRST HALF OF THIS YEAR (DOWN 0.3 PERCENT) WHEREAS IMPORTS IN JULY (S.A.) WERE ABOVE THE MONTHLY AVERAGE OF FIRST SIX MONTHS OF 1976, BY 5.6 PERCENT. (JULY PRELIMINARY B/P REPORTED IN TOKYO 12450.)

(IN $ MIL, PERCENT CHANGE FROMPRIOR PERIOD IN PAREN)

	EXPORTS	IMPORTS	TRADE SURPLUS
JAN-MAR AVG.	5,239 (14.6)	4,334 (MIN 0.1)	905
APR-JUNE AVG.	5,394 (2.9)	4,317 (MIN 0.4)	1,077
MAY	5,489 (5.4)	4,212 (MIN 3.5)	1,277
JUNE	5,486 (-0.1)	4,372 (3.8)	1,114
JULY (PRELIM.)	5,300 (-3.4)	4,570 (4.5)	730

5. IMPORT AND EXPORT VOLUMES BOTH DECLINED I JULY ON SEASONALLY ADJUSTED BASIS. QUANTUM INDEX FOR EXPORTS (JEI 45, S.A.) DECLINED SHARPLY BY 6.4 PERCENT IN JULY FROM PRIOR MONTH. AS A RESUT, JULY EXPORT VOLUME DROPPED TO THE LOWEST LEVEL SO FAR THIS YEAR, THOUGH STILL WELL ABOVE ANY MONTH LAST YEAR. QUANTUUM INDEX FOR IMPORTS (JEI 49, S.A.) ALSO DROPPED IN JULY, BUT LESS RAPIDLY THAN EXPORTS, BY

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FM AMEMBASSY TOKYO
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3.7 PERCENT TO 138.1 AND REMAINED ABOVE THE SECOND
QUARTER'S AVERAGE, BY NEARLY 2 PERCENT.

QUANTUM INDICES OF EXPORTS AND IMPORTS, S.A.
(1970-100, PCT CHANGE FROM PRIOR PERIOD IN PAREN,
CUSTOMS BASIS, S.A.

	EXPORTS	IMPORTS
JAN-MAR AVG	196.9 (17.8)	132.8 (8.6)
APR-JUN AVG.	199.6 (1.4)	135.5 (2.0)
MAY	198.9 (1.8)	130.4 (MIN 1.7)
JUNE	204.5 (2.8)	143.4 (10.0)
JULY (PRELIMINARY)	191.5 (MIN 6.4)	138.1 (MIN 3.7)

6. UNIT LABOR COSTS FELL 1.5 PERCENT IN JUNE ON S.A.
BASIS. JUNE DECLINE MORE THAN REVERSED INCREASE RECORDED
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IN PRIOR MONTH AND BROUGHT INDEX OF UNIT LABOR COSTS (JEI
325) 9 PERCENT BELOW PEAK REGISTERED IN 1975 WHEN JAPAN'S
RECOVERY HIT BOTTOM. COMBINED EFFECT OF THIS YEAR'S
PICKUP IN RECOVERY PACE AND MODEST WAGE INCREASES GRANTED
IN SPRING WAGE NEGOTIATIONS IS EVIDENT IN 8.2 PERCENT
DECLINE IN INDEX DURING PAST FIVE MONTHS.

UNIT LABOR COSTS, S.A.

	INDEX, 1970-100	PCT CHANGE FROM PRIOR MONTH
APR	182.7	MIN 4.3
MAY	183.0	0.2
JUNE	180.2	MIN 1.5

MINISTRY OF LABOR IS CURRENTLY REVISING STATISTICS ON
EMPLOYMENT, JOB APPLICATIONS AND OVERTIME. REVISIONS WILL
INCLUDE SHIFT IN BASE FROM 1970 TO 1975 AND CALCULATION OF
NEW SEASONAL ADJUSTMENT FACTORS. ALTHOUGH PROBLEMS WITH
COMPUTER FACILITIES HAVE DELAYED RELEASE OF OTHER LABOR
DATA, REVISED SERIES ON INDEX OF UNIT LABOR COSTS HAS BEEN
RELEASED. REVISED S.A. DATA FOR 1975 AND 1976 FOLLOW:

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UNIT LABOR COSTS, S.A., 1975-76 (1970-100)

1975		1976	
JAN	195.0	JAN	196.4
FEB	198.0	FEB	195.7
MAR	197.5	MAR	190.9
APR	189.9	APR	182.7
MAY	187.7	MAY	183.0
JUNE	185.0	JUNE	180.2
JULY	185.6		
AUG	190.6		
SEP	189.9		
OCT	191.5		
NOV	195.8		
DEC	194.3		

7. MONETARY AGGREGATE IN JUNE -- NARROWLY DEFNINED MONEY SUPPLY AND LOANS AND DISCOUNTS ADVANCED MORE RAPIDLY IN JUNE THAN IN PRIOR MONTH (S.A). BROADLY DEFINED MONEY SUPPLY, M2, HOWEVER, ADVANCED LESS RAPIDLY IN JUNE THAN IN MAY ON SEASONALLY ADJUSTED BASIS DESPITE PRESS REPORTS STRESSING LARGER YEAR-OVER-YEAR INCREASE THAN RECORDED IN MAY. BROADLY DEFINED MONEY SUPPLY, M2 (S.A), HAD
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1.3 PERCENT MONTHLY GAIN IN JUNE, RISING LESS RAPIDLY THAN 1.5 PERCENT IN MAY. BANK LOANS AND DISCOUNTS (JEI 133, S.A.), ON THE OTHER HAND, RECORDED LARGE 1.2 PERCENT MONTHLY GAIN IN JUNE, BUT THIS FOLLOWED UNUSUALLY SMALL 0.6 PERCENT RISE REGISTERED IN THE PRECEDING MONTH. IN FACT, GROWTH IN LOANS AND DISCOUNTS DURING SECOND QUARTER OF THIS YEAR WAS UNUSUALLY SLOW AT 2.6 PERCENT, COMPARED TO CONSISTENT QUARTERLY INCREASES OF 2.8 PERCENT RECORDED THROUGHOUT PAST YEAR. NARROLWLY DEFINIED MONEY SUPPLY, M1 (JEI 123, S.A.) ALSO REGISTERED LARGER MONTHLY INCREASE IN JUNE (1.4 PERCENT) THAN IN MAY (1.0 PERCENT). INCREASES BOTH IN M1 AND M2, HOWEVER, SLOWED DOWN SUBSTANTIALLY DURING THE SECOND QUARTER FROM THE UNUSUALLY RAPID ADVANCE REGISTERED IN THE FIRST QUARTER OF THIS YEAR. AS COMPARED TO THE SAME QUARTER A YEAR AGO, QUARTERLY ADVANCESIN M1 AND M2 WERE SLIGHTLY SHARPER IN THE SECOND QUARTER OF THIS YEAR. FOLLOWING TABLE SHOWS THE FACTORS CONTRIBUTING TO M2 MONEY SUPPLY GROWTH (N.S.A.). CREDITS TO PRIVATE SECTOR WERE MAJOR CONTRIBUTOR TO JUNE INCREASE IN M2. CREDITS TO NATIONAL GOVT CONTRIBUTED SUBSTANTIALLY LESS IN JUNE THAN IN PRECEDING TWO MONTHS. NET FOREIGN ASSETS SWUNG TO NEGATIVE CONTRIBUTOR TO MONEY SUPPLY GROWTH IN JUNE FOR THE FIRST TIME SKNCE FEB THIS YEAR.

MONEY AND CREDIT, S.A.
(BIL YEN; PERCENT CHANGE FROM PRIOR MONTH IN PAREN)

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M1 .2 LOANS AND DISCOUNTS
APR 49,329 (0.6) 127,615 (1.1) 91,061 (0.9)
MAY 49,835 (1.0) 129,496 (1.5) 91,608 (0.6)
JUNE 50,544 (1.4) 131,209 (1.3) 92,710 (1.2)

CHANGES IN M2
(MONTHLY PERCENT CHANGE AT ANNUAL RATE, I.E. TIMES 12)
APR MAY JUNE
M2, S.A. 12.7 17.6 15.8
M2, N.S.A. 18.4 11.4 25.8
FACTORS CONTRIBUTING TO CHANGES IN M2, N.S.A.
CREDITS TO: APR MAY JUNE
PRIVATE SECTOR -1.2 8.2 19.2
NATL GOVT 15.1 11.2 7.1
LOCAL GOVTS -0.6 1.1 - 2.4
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FOREIGN ASSETS,
NET 0.9 1.3 -0.7
OTHER 4.2 -10.4 2.6
TOTAL ALL FACTORS 18.4 11.4 25.8
QUARTERLY DEVELOPMENT OF MONETARY AGGREGATES

(PERCENT CHANGE FROM PRIOR QUARTER BASED ON QUARTERLY AVG.
OF SEQXONALLY ADJUSTED MONTHLY FIGURES)
M1 M2 LOANS AND DISCOUNTS
1975: APR-JUN 1.9 3.1 2.8
JUL-SEP 3.9 3.8 2.9
OCT-DEC 1.9 3.8 2.8
1976:JAN-MAR 5.7 4.1 2.8
APR-JUN 2.1 3.3 2.7

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CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-02 PRS-01 /105 W
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R 180857Z AUG 76
FM AMEMBASSY TOKYO
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TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
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AMEMBASSY ROME
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8. MOF WILL EASE CONTROLS THIS FALL ON YEN-DENOMINATED BOND ISSUES BY FOREIGN GOVTS AND INTL INSTITUTIONS, ACCORDING TO PRESS REPORTS. LAST SPRING THE MINISTRY EASED RESTRICTIONS ON THE FREQUENCY OF YEN-DENOMINATED ISSUES FROM ONCE EVERY 3 MONTHS TO ONCE EVERY 2 MONTHS. THE NEW REGULATIONS TO TAKE EFFECT THIS AUTUMN WILL PERMIT TWO ISSUES EVERY THREE ONTHS. SINCE DEC 1970 MOF HAS PERMITTED 18 YEN-DENOMINATED BOND ISSUES WITH TOTAL VALUE OF YEN219 BIL. MOF STOPPED PERMITTING THESE ISSUES IN NOV 1973 AS THE B/P DETERIORATED; IT DID NOT RESUME GIVING PERMISSION FOR THESE ISSUES UNTIL JULY 1975. SO FAR THIS YEAR OF HAS APPROVED ISSUES BY THE ASIAN DEVELOPMENT BANK, THE GOVT OF MEXI O AND THE EUROPEAN INVESTMENT BANK. A YEN-DENOMINATED BOND ISSUE BY THE GOVT OF BRAZIL IS SCHEDULED FOR OCT. PRESS REPORTS INDICATE THAT
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SINGAPORE AND DENMARK ARE LIKELY TO RECEIVE PERMISSION SOON TO ISSUE BONDS LATE THIS YEAR OR EARLY 1977.

9. PROSPECTS FOR NEXT YEAR'S BUDGET -- WORK ON JFY 1977 BUDGET IS UNDER WAY AND MINISTRIES HAVE BEEN ASKED TO COMPLETE DRAFTING OF THEIR BUDGET REQUESTS BY END OF AUG. GUIDELINES FOR BUDGET FOR NEXT FY CALL FOR RESTRAINING BUDGET INCREASE TO LESS THAN 15 PERCENT OVER THE INITIAL BUDGET OUTLAY FOR CURENT FISCAL YEAR. THE 15 PERCENT EXPENDITURE INCREZSES PROVIDED FOR IN THE CURRENT BUDGET AND PROJCTED FOR JFY 1977 ARE IN SHARP CONTRAST TO THE GENEROUS 25 TO 30 PERCENT ANNUAL INCREASES PROVIDED FOR IN THE EARLY 1970'S MOF OFFICIALS PREDICT THAT

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SINCE THE DOMESTIC ECONOMY WILL NOT REQUIRE ADDED FISCAL STIMULUS DURING THE NEXT FY (STARTING APR 1977) A DRASTIC CURTAINLMENT IN FISCAL SPENDING MAY BE POSSIBLE. INITIAL BUDGET REQUESTS FOR JFY 1977 ARE EXPECTED TO EXCEEED $95.6 BIL, UP 16 PERCENT FROM INITIAL BUDGET OF CURFRENT FY, ACCORDING TO MOF ESTIMATES. HOWEVER, EVEN IF TAX RECEIPTS INCREASE 20 PERCENT DURING NEXT FY, THE LIKELY DEFICIT OF $26 BIL, LARGER THAN THAT OF CURRENT FY, MUST BE FINANCED THROUGH BORROWING. IN ORDER TO REDUCE THE AMOUNT OF DEFICIT FINANCING BELOW THE CURENT FY'S LEVEL, MOF OFFICIALS SAY THE INCREASE IN JFY 1977 BUDGET OUTLAY MUST BE RESTRAINED TO 12 TO 13 PERCENT AT THE FINAL STAGE OF THE BUDGET-MAKING PROCESS THIS FALL. DIR GEN OF MOF'S BUDGET BUR HAS DESCRIBED THE JFY 1977 BUDGET AS LIKELY TO BE A "RESTRAINED" BUDGET THAT WILL HAVE A "NEUTRAL" IMPACT ON THE DOMESTIC ECONOMY.

FOR THE FIRST TIME IN 16 YEARS NO PERSONAL INCOME TAX REDUCTION WAS IMPLEMENTED DURING THIS CURRENT FY. MOREOVER, NO PERSONAL INCOME TAX CUTS ARE PLANNED FOR NEXT FY EITHER MOF HAS BEEN STUDYING THE POSSIBILITY OF INTRODUCING SOME NEW TAX PROGRAMS SUCH AS THE VALUE-ADDED TAX, BUT IT IS UNLIKELY THAT A V.A.T. WOULS BE INTRODUCED IN JFY 1977.

BUDGET OUTLINE
(IN BIL $; PERCENT INCREASE OVER THE PRIOR YEAR IN PAREN)

	JFY 1976	JFY 1977#
GENRAL ACCOUNT		
EXPENDITURES	82.3	95.6
	(16.6)	(16.1)
BOND SALES - I.E.		
DEFICIT	24.7	26.4
	(32.8)	(7.2)

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NOTES: 1. FIGURES FOR JFY 1977 ARE BASED ON MOF ESTIMATE OF MINISTRIES' INITIAL REQUESTS EXPECTED TO BE RECEIVED BY THE END OF AUG.

2. DOLLAR AMOUNTS ARE BASED ON XCHANGE RATE OF YEN295.00 PER DOLLAR.

10. JAPAN EXIMBANK LOAN DISBURSEMENTS NEXT YEAR ARE TO BE INCREASED 35 PERCENT UNDER MITI PROPOSAL. MITI IS SEEKING TO INCREASE JAPAN EXIMBANK LOAN DISBURSEMENTS BY 35 PERCENT DURING NEXT FISCAL YEAR (STARTING IN APR 1977) TO AROUND 1,500 BIL YEN ($5 BIL AT 295 YEN/DOLLAR). IN THE CURRENT FISCAL YEAR, JAPAN EXIMBANK LOAN DISBURSEMENTS ARE PROJECTED

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TO AMOUNT TO 1,110 BIL YEN ($3.8 BIL), UP 23 PERCENT OVER THE PAST FISCAL YEAR. NEARLY HALF OF THE ENTIRE BANK LOAN FACILITY IN THE CURENT YEAR IS ALLOCATED TO INDUSTRIAL PLANT EXPORTS ($1.8 BIL). MITI PREDICTED INDUSTRIAL PLANT EXPORTS WILL RISE SHARPLY AND REACH PROBABLY $10 BIL TO $12 BIL IN THE CURRENT FY ON AUTHORIZATION BASIS, MORE THAN TWICE AS LARGE AS IN THE PRIOR FISCAL YEAR. APPROXIMATELY ONE-THIRD OF THEM SHOULD BE PAID IN JFY 1977; THUS MITI ESTIMATED AT LEAST $3 BIL SHOULD BE FINANCED THROUGH JAPAN EXIMBANK TRADE CREDITS. EXPORT CREDITS ALLOCATED TO INDUSTRIAL PLANT EXPORTS WILL REPRESENT AS MUCH AS 60 PERCENT OF THE ENTIRE JAPAN EXIMBANK LOAN DISBURSEMENTS PROJECTED FOR JFY 1977, COMPARED TO THE 49 PERCENT EXPECTED FOR THIS FISCAL YEAR.
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